

FEDERAL RESERVE BANK OF CHICAGO

REPORT OF BUSINESS CONDITIONS IN THE SEVENTH FEDERAL RESERVE DISTRICT

FEBRUARY 1, 1919

(Compiled January 24, 1919)

Business in the Middle West continues active and on a profitable basis, notwithstanding an attitude of hesitancy which has been in evidence since the signing of the armistice. Underlying this hesitancy, however, are to be found indications of a business courage and strength which seem to presage rapid strides when the readjustment has progressed sufficiently to reassure the manufacturer and the merchant that prices have reached a level of reasonable stability.

Uncertainty as to what can be considered the price level at which it is safe to purchase raw materials and merchandise without incurring too great a risk of loss in the financial turn-over of the finished product is resulting in a period of orderly liquidation of stocks of merchandise, which, so far as can be learned, are not excessive, with a resultant decrease in customers' borrowings at the banks and an increase in individual deposits. This condition, in turn, was reflected (January 20) by a reduction of \$138,000,000 from the peak of accommodations extended by this bank to its members through loans and rediscounts. It is also worthy of note that the volume of Federal Reserve notes issued by this bank and in actual circulation on January 20 was about \$22,500,000 less than the maximum reached the latter part of 1918.

Savings Deposits Continue to Increase.

Savings deposits continue to increase, but the gain is more pronounced in Chicago than at the other industrial centers in the Seventh Federal Reserve District. In the first two months following the signing of the armistice, ninety-six Chicago state banks (on January 1) showed a gain of 10¼ per cent. in aggregate savings deposits, while the savings deposits of 114 state and national banks in Chicago at the same date showed an increase of 10.67 per cent. Naturally the accumulation of funds at the banks contributed to a softening in the money market, but quotable interest rates were not changed materially. The entrance of some of the larger banks into the commercial paper market resulted in paper brokers seeking to take advantage of bank competition, but the subsequent heavy withdrawal of treasury deposits checked the accumulation of funds and contributed to a restoration of firmer rates.

The momentum of the great credit machinery of the country in the Middle West apparently is contributing to the quick replacement in the banks of funds withdrawn by the Treasury. A speedy recognition and adjustment of informal war contracts placed by the government will have most beneficial results. This great volume of rapidly turning credit presents the antithesis of the experiences of the summer of 1917, when the proceeds of the Middle West Liberty Bond subscriptions were being disbursed largely in the East, due doubtless to the fact that western manufacturers had not yet shifted to a war production basis.

Agricultural Prices Stimulate Courage.

The guaranteed price on wheat, the rather widespread belief that the 1919 cotton crop will go into consumption at comparatively high prices, and the feeling that prices for other agricultural products will react exceedingly slowly, is encouraging the idea that the Middle West will reflect the effect of this prosperity for a considerable period after industry utilized in war production lines has slowed down and has been reconverted to a peace basis.

There is a general belief among bankers and business men, especially large employers of labor, that the readjustment when completed will not prove nearly so drastic as those following previous wars, and that the wage scale here as well as in Europe—and consequently the general price level—will be on a higher plane than in the pre-war period. This is one of the factors stimulating the orderly procedure in returning to a peace basis, by encouraging the attitude of refraining from any steps towards a forced readjustment either in wages or commodity prices.

The wool market, however, is cited as an example of a situation which might have prevailed generally had prices in the abnormal war time been permitted a freer rein, as the consensus of opinion among those engaged in this class of merchandise is, that wool went unreasonably high,—the value of the product being estimated by experts as still 100 per cent. above the normal or the pre-war period,—and consequently, it is agreed, must experience a sharper reaction.

Labor Steadily Becoming More Plentiful.

The labor market is readjusting showily. Labor of all classes is more plentiful, and there are comparatively few instances of a shortage—these being confined chiefly to the higher grade or specially skilled mechanics, for which there is frequently more or less competition as expert help.

The underlying strength of the general business situation is traceable no doubt largely to the conservatism on the part of bankers and borrowers during the period of hostilities, and to a considerable extent, to the effects of the control exercised by the government over prices of certain basic commodities and over the distribution of commodities. Absence of such control in some lines, it is admitted, would have caused keen buying competition, and possibly in excessive stocks of merchandise in hand when the armistice was signed. The fact that stocks of merchandise and of manufacturers' materials are reasonable in size is contributing to an orderly liquidation. Meantime, buyers are proceeding on a hand-to-mouth basis, and, in many instances, are simply waiting. This is regarded by many as a temporary development which in the end will contribute to a much stronger position when we begin to speed up.

Industries Returning to Normal Condition.

Materials in some instances, however, are still difficult to obtain, as for instance, those entering into agricultural implement and machinery production. Sales conditions in this line are considered normal, owing to the splendid crop prospects. Collections are good, while labor is in abundant supply in agricultural and allied industries. Implement makers report an increase of 43 per cent in sales and 30 per cent in cash receipts for 1918, with a decrease of approximately 35 per cent in farmers' and threshermen's notes receivable, and a decrease of 40 per cent in bonds and bills payable, compared with 1917.

Automobile manufacturers are finding it easier to get back into normal production than they anticipated, and a big production is expected to be under way by spring, although the more conservative are endeavoring to keep the brakes well in hand to avoid over-production, and are arranging their production program at about 75 per cent of the normal output. Vehicle manufacturers are close to a normal production at the present time.

Buying Power in Middle West Great.

That the Middle West has accumulated through agricultural prosperity, as well as a result of war contracts, to a greater extent than most people realize, is reflected in the investment market, both for government obligations and other high grade securities. This accumulation materially strengthens the general buying power of the Middle West, and should be a favorable factor in future government financing.

The demand for lumber is very light, with indications pointing to a buyers' market. Building is still quiet, this being the dull season, but plans under consideration in the Seventh Federal Reserve District indicate a resumption of activity when weather conditions are propitious, especially if the money market is encouraging. There is a tremendous volume of deferred building, in consequence of war restrictions. In an effort to stimulate building activity, one large heating equipment concern has announced a cut of 25 per cent in prices on its product, while maintaining wages at the war time level. The effect will be watched closely by other lines of business.

Farmers Borrow to Feed Live Stock.

Weather conditions have been seasonable for crops. Drouth conditions which prevailed last fall in most of the southwestern States, included southwestern Iowa, so that the corn crop in some of the counties in that section of the Seventh Federal Reserve District was a complete failure, while in others it was slightly below the average. Elsewhere in Iowa, however, the corn crop has proved satisfactory, although it did not husk out up to expectations. Iowa farmers have finished a considerable amount of live stock (hogs and cattle) for the market. Road conditions have been unfavorable during the winter and this has delayed the movement of live stock to market.

Many farmers in southwest Iowa and in some parts of Indiana are finding it necessary to buy corn to finish their hogs, shipping in the coarse grain for the purpose. Poor pastures and meadows in some instances, however, caused farmers to ship stock to market in a poor and unfinished condition rather than feed it. Necessarily, where farmers continue feeding, the demand for funds at local banks has been very heavy.

Packing Requirements Are Large.

Pork packers are taking out large sums of money, due to record hog runs at all the yards. The feeling that prices for hogs are artificial also has been a factor inducing shippers to get in under the wire before the Food Administration relinquishes control. Receipts of all animals at the various yards have been huge. Prices of cattle have been considerably higher than a year ago, while sheep and lambs are lower. The average price of beef is above that of a year ago, and mutton considerably less, while there has been little change in the price of hogs of late, owing to the stabilization of prices by the government, which otherwise might have been affected by the unusually large receipts.

Receipts of live stock at Chicago for the four weeks ended January 20, 1919, compared with the corresponding period of 1918 as follows:

	Cattle	Calves	Hogs	Sheep
1919.....	309,915	44,920	912,446	359,566
1918.....	209,387	27,568	565,050	216,421
Increase.....	100,528	17,352	347,396	143,145

The hide market is firm, with smaller stocks than a year ago. The leather trade at this season is usually quiet. The domestic demand, however, is improving, while the foreign demand is very strong for certain kinds of leather, but restricted by a lack of sufficient ocean space. The demands for shoes have been greater recently than a month ago.

Banking and Business Fundamentally Sound.

Advices generally point not only to a sound banking situation but to a fundamentally sound business situation as well. While there are some things in the situation of an abnormal character, in consequence of the war, the fundamental soundness of conditions is contributing toward the clearing up of the business sky and a subsequent period of prosperity. Bankers express confidence in their ability to meet all the demands of commerce, both domestic and foreign. An indication of the trend in the banking situation at the Federal Reserve City is found in a comparison of the gross deposits and aggregate of loans, notwithstanding recent commercial paper purchases, of the twelve leading Chicago banks. Their gross deposits on January 20 aggregated \$923,200,000, or \$7,400,000 less than December 17, but \$6,000,000 greater than on November 18, and \$116,200,000 greater than on January 20, 1918. Aggregate loans, exclusive of bonds, on January 20 were \$625,100,000, or \$1,400,000 greater than a month previous, \$7,000,000 less than on November 18, and \$11,100,000 greater than a year ago.

Chicago bank clearings for the first seventeen days of January, 1919, aggregated \$1,319,732,500, compared with \$1,158,436,500 for the corresponding period of 1918. Returns from twenty-two clearing houses for the first 15 days of January in the Seventh Federal Reserve District outside of Chicago show aggregate clearings of \$378,544,300, compared with \$283,144,400 for the corresponding period of 1917—an increase of approximately \$95,400,000.

Postal Receipts Show Increase.

Chicago postoffice receipts during the first fifteen days of January showed an increase of 10½ per cent, compared with the corresponding period of 1918, whereas in December there was a decrease of 2½ per cent, compared with the corresponding month of 1917. Chicago postal receipts for December, 1918, were \$3,355,214, compared with \$3,116,613 in December, 1917, an increase of \$238,540 or 7.65 per cent. The total receipts for 1918 were \$32,942,776, an increase of \$3,417,369, or 11.57 per cent. compared with 1917.

Milwaukee postal receipts in December were \$269,800, compared with \$203,076 for the corresponding month of 1917, an increase of 32.85 per cent. The increase for the month ending January 15, compared with the previous month is 11.18 per cent. Indianapolis postal receipts for December were \$223,362, compared with \$192,193 the previous month—an increase of \$31,169 or 16 per cent.

RECEIPTS AND SHIPMENTS OF IMPORTANT COMMODITIES AT CHICAGO

	(000's Omitted)							
	RECEIPTS				SHIPMENTS			
	November		December		November		December	
	1918	1917	1918	1917	1918	1917	1918	1917
Flour, bbls.	616	862	1,057	833	346	781	706	822
Wheat, bu.	5,629	2,276	7,137	1,006	8,498	840	7,736	523
Corn, bu.	6,139	4,851	5,489	6,228	5,268	981	3,274	2,223
Oats, bu.	10,957	13,634	12,472	8,745	9,435	9,257	9,436	6,144
Cured Meats, lbs.	11,736	30,629	13,156	26,134	85,385	72,196	118,071	52,534
Fresh Meats, lbs.	111,538	99,374	137,515	108,186	159,620	107,357	250,336	122,740
Lard, lbs.	10,767	5,659	12,959	8,120	57,437	14,876	52,864	10,240
Cheese, lbs.	11,958	13,974	10,334	10,977	4,744	8,461	5,480	6,006
Butter, lbs.	16,122	17,537	14,544	16,770	15,290	17,814	19,041	21,421
Eggs, cases	124	192	85	150	311	280	205	178
Hides	12,959	15,803	17,186	13,226	15,791	23,246	40,347	22,305
Lumber, M. ft.	142	253	163	203	72	96	60	87
Potatoes, bu.	2,262	2,338	1,494	848	978	836	321	248

BUILDING STATISTICS OF SEVENTH FEDERAL RESERVE DISTRICT CITIES

	December, 1918		December, 1917		Per cent. Loss
	No. Buildings	Estimated Cost	No. Buildings	Estimated Cost	
Bay City, Michigan	12	\$ 20,000	8	\$ 8,400	138
Cedar Rapids, Iowa	9	17,000	10	49,000	65
Chicago, Illinois	112	1,410,650	134	3,238,000	56
Davenport, Iowa	18,900	...	17,223	*9
Decatur, Illinois	8	2,340	19	75,915	97
Des Moines, Iowa	26	71,090	127	391,240	82
Detroit, Michigan	316	516,740	308	1,105,205	53
Dubuque, Iowa	1	1,500	2	4,050	87
Grand Rapids, Michigan	33	27,376	39	32,987	17
Indianapolis, Indiana	222	167,339	130	85,943	*95
Jackson, Michigan	21	41,830	10	5,500	*660
Joliet, Illinois	2	6,000
Lansing, Michigan	8	9,246	5	18,350	49
Milwaukee, Wisconsin	93	428,623	103	526,767	12
Peoria, Illinois	12	10,800	17	72,115	88
Saginaw, Michigan	17	31,888	14	13,670	*133
Sioux City, Iowa	20	66,400	10	77,700	13
South Bend, Indiana	27	2,945	33	70,880	96
Springfield, Illinois	23	33,380	15	19,900	*68
Terre Haute, Indiana	20	16,160	8	21,185	24

*Gain.

Note.—Building statistics compiled from The American Contractor.